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FM AMEMBASSY NDJAMENA
TO RUEHC/SECSTATE WASHDC 3794
INFO RUCPDOC/US DOC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHYD/AMEMBASSY YAOUNDE 1184
RUEHBP/AMEMBASSY BAMAKO 0632
RUEHDK/AMEMBASSY DAKAR 1064
RUEHUJA/AMEMBASSY ABUJA 1142
RUEHNM/AMEMBASSY NIAMEY 2679
RUEHFR/AMEMBASSY PARIS 1787
RUEHLO/AMEMBASSY LONDON 1396
RUEHAR/AMEMBASSY ACCRA 0366
RUEHLC/AMEMBASSY LIBREVILLE 0857
RUEHBS/USEU BRUSSELS

UNCLAS NDJAMENA 000734

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SENSITIVE

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DEPT FOR AF, EB, ENERGY FOR CAROLYN GAY AND GEORGE PEARSON,
TREASURY FOR OTA, LONDON AND PARIS FOR AFRICA WATCHERS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ENRG](#) [EPET](#) [PGOV](#) [CD](#)

SUBJECT: CHAD: UNPREPARED FOR FINANCIAL WINDFALL

REF: NDJAMENA 702

¶1. (SBU) SUMMARY: The Government of Chad (GOC) has complied with its commitments to date under the April 26 accord between the GOC and the World Bank, according to team leaders for the World Bank and IMF. The next steps are to develop a revised 2006 budget that conforms to the accord, and finalize a strategy for the reform of the public finance system. Unblocking of the frozen escrow account payments will begin once the budget is approved by the Council of Ministers. Both organizations are extremely concerned by the prospect of the indirect tax revenue windfall set to arrive in 2007 (which could amount to USD 1.7 billion in the current oil price environment), given that Chad has neither the systems nor the human resources to manage these funds effectively and transparently. END SUMMARY.

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TEAM LEADERS BRIEF AMBASSADOR ON MISSION
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¶2. (SBU) On May 17 and May 18, IMF mission leader Harry Snook and World Bank mission leader Marie-Francoise Marie-Nelly met separately with Ambassador Wall to discuss the joint World Bank/IMF mission's objectives and current observations. Both Snook and Marie Nelly identified two immediate objectives of the mission: develop a rectified 2006 budget that conformed to the interim World Bank-GOC accord on April 26, and finalize a strategy for the reform of the public finance system. The discussion would also include dialogue on the possibility of developing a stabilization fund to replace the eliminated Fund for Future Generations, and ways to strengthen the role of the Revenue Management College (CCSRP). Both leaders also stressed the importance of beginning dialogue on the GOC's Poverty Reduction and Strategy Program (PRSP) and the IMF's Poverty Reduction and Growth Facility (PRGF) with the GOC. According to Snook, the IMF hoped to have a review of the PRGF at the end of the 3-month timeframe of the interim agreement.

¶3. (SBU) Marie-Nelly noted that the Bank has lifted its

suspension on its social programs, and would begin the process of disbursing funds to the specific development programs. She also stated that the unblocking of the frozen escrow account payments would begin once the rectified 2006 budget was approved by the GOC's Council of Ministers. At that point, which she predicted to be sometime in June, the GOC would receive one-third of the royalty payments, or approximately USD 40 million. According to Marie-Nelly, Esso and Chevron had already deposited their royalty holdings back into the escrow account for disbursement, and Petronas would soon follow.

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COOPERATION IN SOME AREAS, BUT LACKING IN OTHERS
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¶4. (SBU) Snook and Marie-Nelly identified strong points in cooperation with GOC authorities, and a level of commitment to public finance reform. Snook observed that the presentation by GOC authorities themselves of the country's public finance system and possible reform packages during the multi-donor mission's visit to N'Djamena in April indicated a greater sense of dedication to the reform process. Marie-Nelly noted that the GOC had taken all the appropriate technical steps as part of the April 26 accord to lead up to the IMF-Bank mission.

¶5. (SBU) However, the team leaders noted certain areas of concern in their dialogue with the GOC. Snook stated that the IMF team was still not receiving specific data from the Ministry of Finance on GOC spending for the first trimester of 2006. He also stated that there were specific instances of military purchases that would require further investigation by the team. Marie-Nelly stated that the mission's task was more difficult with the absence of the Minister of Finance and the Minister of Plan, Economy, and Cooperation (both on official missions). Both team leaders speculated that officials were hesitant to provide fiscal information and cooperate when their jobs might be in jeopardy, as some have speculated that President Deby would shake up his cabinet following his recent election victory. Marie-Nelly admitted her concern that this political uncertainty would make the task of negotiating extremely difficult.

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\$1.7 BILLION STRAIGHT TO THE PUBLIC TREASURY
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¶6. (SBU) The World Bank and IMF team leaders discussed the impact of the indirect revenues which the GOC will receive as tax payments from the oil consortium members. Marie-Nelly pointed out that the World Bank had initially forecast a small amount in indirect revenues for the GOC, operating under a projected price environment of USD 15 per barrel. With the price of oil at over USD 70 per barrel, the World Bank's model now estimates that the GOC could receive approximately USD 1.7 billion in its Public Treasury by ¶2008. Marie-Nelly and Snook stressed the importance of making sure that the GOC had an adequate system in place to absorb and transparently manage its revenues. The Ambassador asked both Snook and Marie-Nelly whether the Bank and IMF would have any leverage on the GOC's ability to spend these indirect revenues. Both admitted that their programs paled in comparison to the tax revenue windfall, and the Bank and Fund would have to find a way to convince Deby to spend the resources on poverty reduction.

Remember the Lottery Winners

¶7. (SBU) Snook opined that there was probably no country in the world as poorly prepared as Chad to receive a financial windfall. He was trying to alert Chadian authorities to the problems that such a windfall would bring - even using examples of lottery winners whose lives had become miserable as a result of their winnings. He noted as well that the

surge in revenues would rapidly taper off in a couple of years, as Chad's oil reserves were depleted. Persuading the Chadians that good stewardship of the funds was necessary in order to provide for the economy when the oil ran out was difficult, he acknowledged, given Chadian conviction that additional oil reserves may yet be found.

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COMMENT
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¶8. (SBU) While the World Bank and IMF have made some initial progress in the implementation of the interim agreement, there are roadblocks ahead. Political uncertainty and possible Cabinet level changes hamper the GOC's ability to cooperate with the mission. First trimester spending (including for military purchases) needs clarification. And finally, the prospect of indirect revenues, which will soon dwarf donor funding, dramatically reduces the World Bank's leverage.

Wall